

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

PRS-01 EUR-12 /105 W

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R 170407Z MAY 75

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WSHDC 9919

INFO AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: ENRG, MY

SUBJ: MOBIL AND CONOCO REACT TO PETROLEUM DEVELOPMENT (AMENDMEFK)

ACT

REF: KUALA LUMPUR 2597

1. SUMMARY. MOBIL OIL MALAYSIA HAS RELINQUISHED THEIR OIL EXPLORATION CONCESSION AREA IN STRAITS OF MALACCA (BECAUSE OF DRILLING TWO DRY HOLES AND NOT BECAUSE OF PETROLEUM AMENDMENT); AND MOBIL WILL NOT SEEK NEW OIL EXPLORATION AREAS AND WILL NOT PURSUE PENDING PROPOSAL FOR NEW OIL REFINERY (BECAUSE OF PETROLEUM AMENDMENT). MOBIL SAYS RELIABLE SOURCES HAVE TOLD THEM SHELL OIL MAY CHALLENGE PETROLEUM AMENDMENT ACT IN MALAYSIAN COURTS AS BEING UNCONSTITUTIONAL. CONOCO SUSPENDS EXPLORATION ACTIVITIES IN MALAYSIA. END SUMMARY.

2. ROGER O'NEILL, MOBIL REGIONAL GENMGR, SINGAPORE AND LINDSAY FERGUSON, MANAGING DIRECTOR, MOBIL MALAYSIA
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CALLED ON AMBASSADOR MAY 15 TO DISCUSS SITUATION IN

LOCAL OIL INDUSTRY AND FOREIGN BUSINESS COMMUNITY AS RESULT OF PETROLEUM DEVELOPMENT (AMENDMENT) ACT. O'NEILL EXPRESSED CONSIDERABLE INTEREST IN LEGAL ASPECTS OF ACT -- QUESTION OF CONSTITUTIONALITY UNDER MALAYSIAN LAW AND POSSIBLE APPLICATION OF USG LAWS. AMBASSADOR MENTIONED THAT WE HAD ADVISED GOM OF POSSIBLE APPLICATION OF HICKENLOOPER AND GONZALES AMENDMENTS AND PROVISION OF TRADE ACT, 1974 IF MANAGEMENT SHARES PROVISION OF PETROLEUM AMENDMENT APPLIED TO U.S. COMPANY. MOBIL MAY CONTACT DEPARTMENT ON USG LEGAL INTERPRETATION OF ACT, ALTHOUGH O'NEILL DID NOT STATE SPECIFICALLY SUCH APPROACH WOULD BE MADE.

3. O'NEILL SAID MOBIL UNDERSTOOD FROM RELIABLE SOURCES THAT SHELL OIL MAY CHALLENGE ACT IN MALAYSIAN COURTS ON CONSTITUTIONAL GROUNDS. BOTH MOBIL EXECUTIVES EXPRESSED OPINION THIS WOULD BE SIGNIFICANT DEPARTURE FROM MANNER IN WHICH SHELL NORMALLY REACTS IN SUCH SITUATIONS. DESCRIBED SHELL AS MOST ADEPT OF ALL INTERNATIONAL OIL COMPANIES IN DEALING WITH HOST GOVERNMENTS AND AS MASTERS IN EMPLOYING "SOFT," NONLEGALISTIC APPROACH WITH KEY HOST GOVERNMENT OFFICIALS IN FINDING WAYS TO WORK AROUND WRITTEN LAWS AND REGULATIONS.

4. WHEN QUERIED ON MOBIL'S PLANS, O'NEILL SAID THEY HAVE ALREADY RELINQUISHED THEIR OIL EXPLORATION AREA IN STRAITS OF MALACCA BECAUSE THEY DRILLED TWO DRY TEST HOLES AND GEOLOGICAL FORMATIONS WERE NOT PROMISING. DECISION WAS MADE PRIOR PASSAGE OF PETROLEUM DEVELOPMENT (AMENDMENT) ACT. SUBSEQUENTLY, CONOCO INVITED MOBIL TO ENTER INTO JOINT VENTURE FOR OIL EXPLORATION IN CONOCO'S CONCESSION AREA OFF COAST OF PAHANG, PENINSULAR MALAYSIA IN SOUTH CHINA SEA. MOBIL HAS REFUSED BECAUSE OF "DARK CLOUD" HANGING OVER OIL RELATED INVESTMENTS IN MALAYSIA AS RESULT OF PETROLEUM AMENDMENT. UNDER PRESENT CIRCUMSTANCES MOBIL HAS NO RPT NO FURTHER INTEREST IN OIL EXPLORATION IN MALAYSIA. MOBIL ALSO HAS HAD PROPOSAL PENDING BEFORE PETRONAS FOR NEW OIL REFINERY WHICH THEY NOW WILL NOT PURSUE FOR SAME REASONS.

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5. CONOCO INFORMED AMBASSADOR MAY 16 THAT THEY ARE SUSPENDING ALL EXPLORATION ACTIVITIES IN MALAYSIA. ALSO SAID RAJA MOHAR, PRINCIPAL ECONOMIC ADVISOR TO PM, HAS ASKED THEM TO PREPARE PAPER RE EFFECTS OF PETROLEUM AMENDMENT ON OVERALL INVESTMENT CLIMATE IN MALAYSIA, PARTICULARLY AS IT RELATES TO PETROLEUM INDUSTRY.

6. COMMENT. REQUEST BY RAJA MOHAR SUBSTANTIATE OTHER INFORMATION WE HAVE RECEIVED RECENTLY THAT KEY GOM ECONOMIC ADVISORS OUTSIDE PETRONAS MAY BE OVERCOMING EARLIER RELUCTANCE AND NOW PRESENTING THEIR VIEWS AND CONCERNS ON ACT MORE FORCEFULLY TO PM. OUR ASSESSMENT IS THAT SUCH REPRESENTATIONS WILL NOT PRODUCE ANY MAJOR CHANGES IN GOM PLANS TO CONTROL OIL INDUSTRY BUT MIGHT RESULT IN SOME MODERATION AND FINESSE IN WAY ACT IS ADMINISTERED WITH RESPECT TO INDIVIDUAL COMPANIES. UNDERHILL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, LAW, EXPLORATORY DRILLING, PETROLEUM CONCESSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUALA02729
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750174-0254
From: KUALA LUMPUR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750541/aaaabktz.tel
Line Count: 126
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 KUALA LUMPUR 2597
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 22 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUL 2003 by BoyleJA>; APPROVED <23 JUL 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MOBIL AND CONOCO REACT TO PETROLEUM DEVELOPMENT (AMENDMEFK) ACT
TAGS: ENRG, MY, US, CONOCO, MOBIL
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006